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SUBJECT: KUWAIT'S COMMERCIAL BANKS: SURVEY OF RESULTS, IRAQ  
INTEREST, ISLAMIC BANKING AND C/T TOOLS

REF: A. KUWAIT 0076

[B](#). 2004 KUWAIT 4191

[C](#). BAGHDAD 0503

[D](#). 2004 BAGHDAD 1175

Classified By: Ambassador Richard LeBaron for reason 1.4 (d)

[1](#)1. (SBU) Summary and Comment: Following up on his December 2004 meeting with the Central Bank Governor (Ref B) Ambassador met during January and February with the top executives of the leading Kuwait banks. The bank executives were generally positive about the Kuwaiti economy and the strength of the banking sector, were not concerned much about foreign competition, but were concerned about terror finance. All of them thought that Kuwaiti banks were being vigilant on terror finance, but some recognized the need for tougher legislation. Some of the banks were actively seeking business opportunities in Iraq while others were waiting out the current instability, but all of the bankers saw Iraq as a potentially lucrative market. Although only some of the bankers were interested in offering Islamic banking services, all of them saw it as a growth area. Some of them also expressed resentment at Kuwait Finance House's rise in wealth and influence, seeing it as the product of less regulation and explicit GOK support. The most lucrative sector, according to all the bankers, is real estate, but all of them seemed to understand the risks in real estate speculation and the potential bubble in the real estate market. The bankers were all focused on training and staffing challenges and recognized that they were in stiff competition with each other for the small number of well-qualified Kuwaiti employees. They also all recognized the value of U.S. training and educational opportunities. Overall, the bankers were positive in their outlook for 2005, with most expecting their double digit profit growth of 2004 to be matched this year.

[1](#)2. (C) Comment: Clearly the banks in Kuwait are doing very well and will continue to do so in 2005. The senior managers of these banks are impressive, as is the attention most seem to be giving to issues of key concern to us, such as money-laundering. Still scarred by the massive amount of non-performing loans resulting from the stock market crash of 1982, the GOK, through the Central Bank, is limiting the exposure of the banks and exercising strong supervision. Given the size and relatively good management of the Kuwaiti commercial banks, the prospect of entry by a few of the big multinationals, including Citibank, is being met without any perceptible anxiety. Two or three of the Kuwaiti banks will likely become significant players in Iraq once the security situation stabilizes. End Summary and Comment.

Banking Sector Overview: NBK on Top, KFH and Others Also Strong

[1](#)3. (U) Following are the top banks in Kuwait, in descending order by assets.

-- National Bank of Kuwait (NBK): Largest bank in Kuwait by assets, 47 branches, 2004 profits of \$515 million. The third largest bank in the Arab world, with the highest credit rating in the Middle East. Has branches, offices, or partnerships in Qatar, Jordan, Lebanon, London, New York, Paris, Geneva, Bahrain, Singapore, Vietnam and Thailand.

-- Gulf Bank: Second largest bank in Kuwait, 31 branches, 2003 profits of \$165 million.

-- Commercial Bank of Kuwait (CBK): Third largest bank in Kuwait, 39 branches, 2004 profit of \$214 million.

-- Al-Ahli Bank of Kuwait: Fourth largest bank in Kuwait, 15 branches, 2003 profits of \$75 million.

-- Burgan Bank: Fifth largest bank, 2003 profits of \$69 million.

-- Bank of Kuwait and the Middle East (BKME): Sixth largest bank, 18 branches, 2003 profits of \$68 million. 48% owned by Ahli United Bank of Bahrain. Was owned by GOK until 2002.

-- Kuwait Finance House (KFH): Market leader in Islamic banking, second largest financial institution in Kuwait (Ref A), with profits of \$200 million in 2003. As of 2005, officially came under the same regulatory and oversight structure as other Kuwaiti banks. Previously did not have to comply with similar banking regulations and enjoyed "unfair advantages," according to some commercial bankers. (Note: KFH is usually not ranked with the commercial banks, but is only second to NBK in the size of its assets.)

The Bankers: A Close-Knit, Well-Connected Group

14. (C) While the banks are all in competition with one another for customers, deposits and skilled employees, the top Kuwaiti bankers are a close-knit group, bonded both by family connections and investment opportunities. Many of the top bankers are closely connected to either the top Kuwaiti merchant families or the ruling family. During January and February 2005, Ambassador and EconOff met with the following Kuwaiti bankers:

National Bank of Kuwait (NBK) Chairman Mohammed Al-Bahar, NBK CEO Ibrahim Dabdoub, Burgan Bank Chairman Shaykh Mohammed Al-Jarrah Al-Sabah, Gulf Bank CEO and GM Dr. Yousef Al-Awadi, BKME Chairman Hamad Al-Marzouq, Commercial Bank Chairman Abdulmajeed Al-Shatti, Commercial Bank CEO & General Manager Jamal Al-Mutawa, Al-Ahli Bank Deputy Chairman Ali Al-Mutairi, Al-Ahli Bank General Manager Ibrahim Ibrahim, Al-Ahli Bank Asst. General Manager Trevor Bush, Kuwait Finance House Chairman Bader Al-Mukhaizeem, Kuwait Finance House General Manager Jasser Al-Jasser, and Kuwait Finance House Asst. General Manager Mohammad Al-Omar.

Banking in Kuwait: Solid Oversight, Ready for Foreign Competition

15. (C) Kuwait's banks are generally held in high regard throughout the region and usually receive high ratings from the major credit ratings agencies. All of Kuwait's major banks enjoyed double-digit growth in 2004; some reached a 20-25% growth in profits. While some of the banks, such as Burgan, are known for having a large amount of non-performing loans, others are proud of their record and their credit rating. Al-Ahli Bank GM Ibrahim boasted, for example, that Al-Ahli is the "cleanest bank in non-performing loans," meaning that his bank had the lowest loan default rate, and that the bank received four upgrades from the major ratings agencies over the past year. Commenting on general oversight of Kuwaiti banks, Al-Mutawa of the Commercial Bank said that the Central Bank has to approve the senior management of all banks operating in Kuwait. He thought that this would be the case for any new foreign banks entering the Kuwaiti market. Al-Mutairi of Al-Ahli Bank said that Kuwait has a "very strong Central Bank Governor" who was reasonable but also wanted to ensure that no Kuwaiti bank collapsed. Reflecting on his experience throughout the region, NBK CEO Dabdoub said "the Central Bank of Kuwait is the best by far." Many of the bankers reflected back on the Kuwaiti stock market crash of 1983, seeing it as the impetus for the Central Bank's strict control today. Gulf Bank CEO Al-Awadi described the Central Bank as "very responsible," and said that Kuwaiti banks are very strong as a result.

16. (C) The National Assembly passed a law in 2001 allowing entry of foreign banks into the Kuwaiti market, and the first foreign bank, BNP Paribas, was granted a license in 2004. Other banks are expected to follow soon, including Citibank, HSBC, Standard Charter and National Bank of Abu Dhabi. Gulf Bank CEO Al-Awadi said that he thought Citibank was close to getting approval, and had recently been in town "looking for premises." While none of the bankers expressed much concern over losing market share to foreign banks entering the Kuwait market, some of them were curious as to whether they would have to abide by all of Kuwait's laws. Specifically, Burgan Bank Chairman Al-Sabah questioned how much taxes foreign banks would pay, and whether or not they would be required to pay the labor charge (2.5% of net profits) and the training charge (1% of net profits). NBK's CEO Dabdoub and Chairman Al-Bahar both agreed that Kuwaiti banks would not be affected much by the entry of foreign banks in the Kuwaiti market, explaining that the foreign banks would be competing in wealth management and private banking, not retail banking.

17. (C) Al-Marzouq of BKME, reflecting on his extensive experience with the banking sector in Bahrain, said that the market in Bahrain was much more open, and that reciprocity with other international banks was easier handled when the

bank is based in Bahrain rather than Kuwait.

#### Bank Expansion: More Branches, More E-Banking

18. (U) Most of the bankers said that they were expanding their branch networks in Kuwait, and none saw the Kuwaiti market as "overbanked" yet. Because the Central Bank controls fees, Commercial Bank CEO Al-Mutawa explained, the competition is in product range, service, and the branch network. Kuwaitis like to go into their branches and talk with someone, or get someone on the phone, the bankers explained, so the cost of opening up new branches usually pays off. Commercial Bank Chairman Al-Shatti said that his bank was planning on opening 15 new branches in 2005. Al-Ahli Bank also plans to open new branches, with Deputy Chairman Al-Mutairi explaining that the "social culture calls for more bank branches."

19. (U) Burgan Bank Chairman Al-Sabah said that all of Kuwait's banks were trying to open new branches, but that interest was also growing in electronic and phone banking. To encourage greater use of electronic banking, Al-Sabah added, Burgan Bank was putting a 1 KD transaction fee on some paper transactions at the teller. Al-Sabah described a few of the phone banking options now available in Kuwait, including the customer's ability to receive text messages on their cellphones confirming bank transaction, and paying bills by phone. He also said that a "SmartCard" could be introduced in the Kuwaiti banking sector in 2005-2006. Gulf Bank CEO Al-Awadi said that many Kuwaiti consumers are doing electronic banking, through the use of ATMs and online banking.

#### Banking in Iraq: Most Interested in this "Lucrative Market"

10. (C) NBK is the most forward-looking of the Kuwaiti banks on Iraq, having received a license to operate from the Central Bank of Iraq in January 2004 (Refs C and D). The license terms called for NBK to have the bank operational by January 2005, but the security situation has slowed things down. NBK purchased 85% of the bank owned by the Al-Kubba family and plans to put the NBK name on it after a year or two. NBK CEO Dabdoub explained that Iraq's banks were "like piggy banks," meaning they were just being used to store money. "The problem now is the circulation of money," he added. He illustrated this point by explaining that the Central Bank of Iraq is currently holding more dollars than the Central Bank of Kuwait, and that the branch operations of NBK's bank in Iraq hold more dollars than NBK does in Kuwait. They are waiting for the security situation to stabilize to begin real banking operations, Dabdoub concluded.

11. (C) Al-Marzouq of BKME said that his bank had just obtained a license to operate in Iraq, but that the challenge now was to "try and get people who are quite adventurous" to actually go work there. He had traveled to Baghdad in 2004 and looked at buying a local bank there along with other bankers, as a consortium, but they later decided against it. Overall, Al-Marzouq saw "huge investment flows" to Iraq in the future, once the situation stabilizes. He saw Iraq as rich both in resources and tourism potential.

12. (C) The Commercial Bank is interested in doing business in Iraq, according to Chairman Al-Shatti, but will take a "calculated risk" through an alliance or partnership. Burgan Bank Chairman Al-Sabah did not have any specific plans for business in Iraq, saying that the situation was too unstable now. Al-Ahli bank also sounded a cautious tone on doing business in Iraq, with Deputy Chairman Al-Mutairi saying that the bank was supporting Iraq by helping Kuwaiti customers, including DoD contractors, do business there. He added that, while his bank does not see Iraqi banks as reliable yet, it may consider a partnership or buyout at a later date. Gulf Bank CEO Al-Awadi said that his bank does not want to take a direct risk in the Iraqi banking sector just yet, but, like others, it is financing Kuwaiti corporations doing business there.

#### Islamic Banking: Seen as Profitable, but Resentment at Unfair Advantage of KFH

13. (U) Most of Kuwait's commercial bankers expressed interest in Islamic banking and a few of the commercial banks offer a limited number of Islamic banking products and services. Commercial Bank Chairman Al-Shatti explained that the Central Bank allows each commercial bank to have one branch that operates under Islamic banking principles, but most of Kuwait's commercial banks have not taken up this option. Al-Marzouq of BKME said that his bank is interested in offering Islamic banking service but just has to figure out its right niche. BKME is now financing some Islamic investment funds, he explained. He described the difference between commercial banking and Islamic banking as a "matter

of documentation," and added that, if everything is equal, Kuwaiti customers would like to do Islamic banking to meet their religious requirements. Gulf Bank CEO Al-Awadi said that "people were attracted to Islamic banks because of Shari'a," but agreed with Al-Marzouq that the basic difference is "documentation, just gimmicks."

14. (C) Some of the bankers also expressed resentment at Kuwait Finance House's rise in wealth and influence, seeing it as the product of lax oversight and explicit GOK support. The GOK owns 56% of KFH and it was not until January 2005 that KFH came under the full control and oversight of the Central Bank. (Note: See Ref A for further background on KFH.) Al-Shatti characterized KFH as "unfair competition," and expressed satisfaction that KFH had finally been put under Central Bank authority, but not before "building an empire" for 15 years. While joining in the criticism of KFH, Commercial Bank CEO Al-Mutawa was also quick to point out that his cousin is a member of the Shari'a Compliance Board there and that they all know each other. Al-Marzouq pointed out that KFH was being re-organized and would have to divest itself of its car-selling division. Gulf Bank CEO Al-Awadi called KFH a "merchant of huge liquidity" and also expressed satisfaction that the company was now fully under the control and supervision of the Central Bank. He pointed out that other Islamic banks, such as the newly established Boubayan Bank and the re-organized Kuwait Real Estate Bank, were also now under complete Central Bank supervision. None of the banking executives contended that Islamic banking (or the KFH) held terror-financing risks.

#### Charities and Terror Financing: GOK Needs to do More

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15. (C) Commercial Bank Chairman Al-Shatti said that anti-money laundering regulations in Kuwait are strong and that the money laundering unit in his bank reports directly to him. He said that Kuwaiti law "necessitates looking at every penny coming in and out," and that he regularly discusses large transactions with the other top bankers in Kuwait. While most of the other bankers agreed with this assessment, some recognized the need for stricter laws and better enforcement. NBK CEO Dabdoub said that it was "very embarrassing for (NBK's) branches in New York and London to have weak laws (in Kuwait)," and that he and other NBK executives would "help lobby on this." Gulf Bank CEO Al-Awadi agreed that Post should be concerned that there are no criminal sanctions for terror financing, and said "you guys should push very hard on this." He said that his bank tracks all transactions and asks for the source of funding for any deposits over 3000 KD (\$10,274) per the Kuwaiti law, and that the Central Bank was "doing a good job" on keeping the pressure on the banks to follow the law.

16. (C) Most of the bankers expressed concern over the number of unlicensed charity collection boxes found throughout Kuwait, with BKME Chairman Al-Marzouq saying that he and others had been "voicing this concern for many years." He explained that "conflict within the ruling family had allowed the rise of religious parties and their influence," and that the GOK "didn't have the necessary will to clamp down" on the unlicensed charity collection. Referring to the recent shootouts between extremists and police, Al-Marzouq said that there was "no better time than the present" for the GOK to crack down on these practices, and that there would be a "tidal wave" of support for such a crackdown. He said that there were no reliable estimates of how much these unlicensed charities had raised, giving the example of a small, relatively unknown charity that was found to have collected over \$50 million in donations. Despite the absence of a law explicitly making terror financing a crime, Al-Marzouq said that he thought the anti-money laundering laws covered terror financing by making it illegal for the banks to accept deposits for "unclear objectives." He said that it would be better for the GOK to focus on regulating charities than to spend time and energy on adding new provisions to the law. Al-Ahli Bank Deputy Chairman Al-Mutairi also expressed concern over the "many unlicensed charity collection boxes," especially in mosques. Gulf Bank CEO Al-Awadi agreed, but added that "charity worldwide is a problem."

#### Real Estate: Lots of Money, and Lots of Speculation

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17. (U) Most of the bankers that the Ambassador spoke with saw the real estate sector as the most lucrative market at present, but the sector was also seen as quite speculative and the profits not sustainable. To illustrate, Al-Ahli Bank Deputy Chairman Al-Mutairi referred to a recently-issued S&P report on real estate in the Gulf that compared the amount of the banking sectors' total equity that was invested in real estate. In the frenzied real estate market of Dubai, S&P found that 67% of bank equity was going to real estate. In Kuwait, however, where the pace of overall growth is slower than Dubai, 73% of total bank equity was being invested in real estate. Al-Mutairi said that this was partly due to

more private capital being available in Dubai and more properties being bought and paid for before they are even built. Most of the bankers saw the interest rate increases and other recent actions by the Central Bank as helping to cool down the real estate market in Kuwait.

Training & Staffing: Need Better Trained Kuwaitis, U.S. Education Valued Highly

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18. (U) BKME Chairman Al-Marzouq said that his bank spends a lot of money on training, and that "hiring Kuwaitis brings long-term stability." Having just joined the Board of the Banking Institute, Al-Marzouq explained, he planned to push for more Institute-sponsored training and for the banking sector to be able to absorb more Kuwaiti graduates. Agreeing with the Ambassador on the importance of U.S. educational opportunities for Kuwaitis, Al-Marzouq explained that, as a student at the Claremont Graduate University, he studied under Peter Drucker and other management experts. While most of the bankers saw student visas and stricter visa procedures as a hurdle to sending more Kuwaitis for training and education in the U.S., many of them saw U.S. educational opportunities as worth it. "Student visas are a challenge," said Al-Mutairi of Al-Ahli Bank, "but American education is the best."

19. (C) Commercial Bank Chairman Al-Shatti described some of the difficulties in finding well-trained Kuwaitis, explaining that "the big problem is Kuwaitization." He added that many good expat teachers were removed and poorly trained Kuwaiti teachers are being promoted. Al-Mutawa said that the Palestinian teachers, generally regarded as among the best, were kicked out after the Gulf War and replaced by Egyptian teachers who are not as good. Kuwaitis make up 40% of the banking sector, Al-Shatti explained, but the people are not as good as in Kuwait's most important sector, the oil industry. He pegged the cost of recruitment in the banking sector at about 500KD (\$1721) per employee.

20. (C) Al-Ahli Bank sends staff to London and New York for training, and conducts its own internal training. Deputy Chairman Al-Mutairi echoed the other bankers' complaints about the Kuwaiti educational system, saying that "local grads are not as good as those from the U.S. and India." Burgan Bank Chairman Al-Sabah said that it was "hard to find the right kind of good people," and that most graduates preferred government work, with its guaranteed benefits and lack of performance standards. Banking salaries are higher than government salaries, Al-Sabah said, but the banks require more work. He estimated the average actual workday for a Kuwaiti government employee at about 30 minutes.

21. (U) Gulf Bank spends a lot of money training young Kuwaitis, according to CEO Al-Awadi, and also sends HR staff to job fairs in search of qualified Kuwaiti students. He added that there was "no shortage of good talent" and that his bank preferred to find people with good skills, then train them in the banking profession. He explained that providing training and creating qualified Kuwaitis was part of "being a good corporate citizen," (a term rarely heard in Kuwait).

Banking Outlook for 2005: More Money, More Profits

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22. (U) Besides the economic boom in Kuwait associated with Saddam Hussein's downfall and Iraq's liberation, BKME Chairman Al-Marzouq also saw a sustained economic boom in Kuwait from the steady influx of cash through United Nations Compensation Committee (UNCC) payments. A combination of \$6-\$7 billion in UNCC money and low-interest loans from banks had provided a tremendous amount of liquidity in Kuwait, he explained. While interest rates have risen, he added, GOK expenditures have also risen, so the liquidity remains. (Note: The common assumption that the economic boom in Kuwait was due primarily to an influx of money being re-invested in Kuwait after the downfall of Saddam was not borne out in our discussions with the banking executives, but we will explore this issue in further detail with interlocutors in the investment community.)

23. (U) Al-Ahli Bank Deputy Chairman Al-Mutairi expected 20-25% growth in profits in 2005, estimating that most of the profit growth would come from its retail operations. Gulf Bank CEO Al-Awadi also saw positive prospects for 2005, describing it as a "normal extension of 2004." Burgan Bank Chairman Al-Sabah said that 2005 should be good for business in general, and for the real estate and stock market in particular. He cited a number of specific real estate projects, such as a new hotel planned for the Marina area and an "old Kuwait" planned for downtown. The other bankers all agreed that the banking sector would continue to see double-digit profit growth in 2005.

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